Lending rates of banks

2143. SHRI RAJEEV SHUKLA: Will the Minister of FINANCE be pleased to state:

(a) what are the reasons for the difference between the lending rates of public sector banks and private sector banks;

(b) whether the difference between minimum and maximum interest rates for demand loans has widened; and

(c) if so, the details thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) The lending rates of scheduled commercial banks have been deregulated by RBI since October, 1994, subject to the condition that banks have to declare their Prime Lending Rates (PLRs), as approved by their Boards. For credit limits up to Rs. 2 lakh, PLR remains the ceiling rate. The PLR is generally fixed by the banks taking into account *inter-alia,* their cost of funds, operational cost, risk capital requirements etc. Since April 2001, commericalbanks have been given freedom to lend at sub-PLR rates tocreditworthy borrowers on the basis of a transparent and objective policy approved by their Boards.

(b) and (c) RBI has reported that the spread between the maximum and minimum lending rates widened between March 2003 and March 2004, although there is a general decline in lending rates, both for demand and term loans. However, the decline is sharper for public sector banks (PSBs) *vis-a-vis* private sector banks. The range of lending rates for various banks groups for advances across tenors excluding 5% of business contracted at extreme rates as also advances at which the bulk of business (at least 60%) is contracted between the two period is furnished below:

	(at 5% contracted)		(60% contracted)	
Bank Group	Demand loans March 2003	Demand loans March 2004	Demand loans March 2003	Demand loans March 2004
PSBs Private	6.00-16.00	4.00-15.50	8.50-15.75	4.00-15.50
Banks	5.40-19.00	4.50-19.50	5.40-17.50	5.00-17.50